[JOINT COMMITTEE PRINT]

THE PUBLIC DEBT LIMIT AND DEBT MANAGEMENT

PREPARED FOR THE

COMMITTEE ON WAYS AND MEANS

OF THE

HOUSE OF REPRESENTATIVES

BY THE STAFF

OF THE

JOINT COMMITTEE ON TAXATION

FEBRUARY 2, 1979

U.S. GOVERNMENT PRINTING OFFICE

39-723 WASHINGTON : 1979 JCS-2-79

I. PUBLIC DEBT LIMIT

Present law

The debt limit is $798 billion, which is composed of a permanent limit of $400 billion and a temporary limit of $398 billion. The temporary limit expires on March 31, 1979, and in the absence of further legislation, the statutory limit will revert to $400 billion on April 1, 1979. (Table 4 shows the statutory debt limits since 1947.)

The debt on January 31, 1979, was $791.6 billion.

Background for committee consideration

It is not likely that the Administration will be able to meet its financing requirements through March 31, 1979, with the present debt limit. It probably will be able to carry on through March 6, 1979, with the present $798 billion limit.

In July 1978, the Administration presented a table to Congress which showed its estimates of debt requirements at the end of each month in fiscal year 1979. These estimates showed that $814 billion would be required at the end of March 1979.

When the Committee on Ways and Means reported a bill to the House floor, it provided a combined debt limit of $814 billion through March 31, 1979. A floor amendment reduced the debt limit to $798 billion, and the bill subsequently was enacted, as amended on the House floor.

The Treasury will present its month-by-month debt requirements, revised to be consistent with the budget recommendations for fiscal years 1979 and 1980, when it appears before the committee. The table will start from the actual debt figure for January 31, 1979. A rough estimate prepared in advance by staff indicates that a debt limit of $810 billion will be adequate through May 31, 1979, and $833 billion through the end of this fiscal year.

Issues for committee consideration

1. *Level and duration of debt limit.*—Congress will select a debt limit which will be adequate to finance the Federal Government's budget until a time when Congress decides it wants to review the matter once again. Since the debt limit must be consistent with the most recently enacted budget resolution, extensions of the limit for short periods of time must be made with the resolution in mind.

The second budget resolution for fiscal year 1979 recommended a ceiling for the public debt limit of $836 billion through September 30, 1979.

The President's budget for fiscal year 1980 which is summarized in table 1 contains information that indicates a limit of $833.0 billion will be needed through September 30, 1979, and $893.2 billion through September 30, 1980.

Alternatively, Congress could set a new permanent debt limit without specifying a termination date. The level of the new debt limit could be selected so that an increase in the debt limit would be needed at a time in the session when Congress would want to

review the subject again. It would have the same effectiveness as setting a termination date, but there would not be an urgent need to change the debt limit solely because of a deadline. Congress could have more flexibility in scheduling its activity, and legislation to change the debt limit could be timed to meet the financial requirements of the Federal Government.

2. *Permanent or temporary debt limit.*—The permanent debt limit is $400 billion, and the temporary debt limit is $398 billion. An additional increase in the temporary debt limit above the present level would make the permanent debt limit less than 50 percent of the total debt limit.

A temporary increase in the debt limit was enacted initially in 1955 because Congress and the Administration believed that budget surpluses soon would make it possible to dispense with the temporary limit. At that time, the permanent debt limit was $275 billion. There have been 7 increases in that level to the present $400 billion. The last increase was enacted on March 17, 1971.

An increase in the permanent debt limit, even to the extent of eliminating the temporary debt limit, need not change the recent congressional pattern of debt limit increases because Congress simply would set a specific limit that would apply through a date certain.

The chief advantage of raising the permanent debt limit to the point of eliminating the temporary limit is one of debt management: it would permit the Treasury to maintain the existing debt level by refunding debt which matures without being able to increase the amount outstanding. Under the present procedure, when the temporary limit expires, the Treasury is not able to refund maturing debt until the total debt has declined to the level of the permanent debt limit. The difference between the permanent and temporary limits is too large for that to be realistically possible, even with a modest budget surplus. On the other hand, as long as the expected debt level continues to increase, the Treasury must engage in drastic financial management techniques when a temporary debt limit expires before a new debt limit has been enacted; if the operating cash balance were exhausted before enactment of a new debt limit, the Treasury would be unable to meet any Federal Government financial obligations.

Table 1.—Federal Funds Financing and Change in Debt Subject to Limit

[In billions of dollars]

Description	Fiscal year 1979 estimate	Fiscal year 1980 estimate
Debt subject to limit at start of fiscal year	772. 7	833. 0
Federal funds surplus of deficit (−)	−55. 2	−49. 0
Deficit (−) of off-budget Federal entities	−12. 0	−12. 0
Total, amount to be financed	−67. 2	−61. 0
Means of financing other than borrowing:		
Decrease or increase (−) in cash and monetary assets [1]	9. 9	
Increase or decrease (−) in liabilities for:		
Checks outstanding, etc	−1. 3	1. 3
Deposit fund balances	−. 1	−. 3
Seigniorage on coins	. 9	1. 1
Total, means of financing other than borrowing	9. 4	2. 1
Decrease or increase (−) in Federal funds and off-budget entity investments in Federal debt	−1. 0	−. 9
Increase or decrease (−) in Federal funds and off-budget entity debt not subject to limit	−1. 5	−. 4
Net change attributable to means of financing other than borrowing and adjustments in Federal funds and off-budget entity debt	6. 9	. 8
Change in debt subject to limit	60. 3	60. 2
Debt subject to limit at end of fiscal year	833. 0	893. 2

[1] Includes profits on gold sales, which have been reclassified as a means of financing rather than as an offsetting collection. The budget totals have been adjusted retroactively for the period since these sales began in 1975.

Source: Budget of U.S. Government for Fiscal Year 1980.

Statistical information

The following tables provide some additional information for the committee which is relevant to decision-making with respect to the debt limit.

Table 2 shows the estimates of the unified budget total for fiscal years 1979 and 1980 as presented in the budget for fiscal year 1980. In addition, the table presents the budget totals that were approved in the second budget resolution for fiscal year 1979. The Administration estimates that the deficit in this fiscal year will be $37 billion, $2 billion less than the $39 billion deficit estimated in the second budget resolution.

Table 3 presents estimates of budget receipts, outlays and deficits for Federal funds and trust funds and the deficit for the unified budget. It shows that the Federal funds deficit is estimated at $55.2 billion in 1979 and $49.0 billion in 1980. In both years, the trust funds surplus offsets part of the Federal funds deficit, and so reduces the unified budget deficit. Although the trust funds surplus reduces the unified

budget deficit, the surplus does not reduce the need for additional authority to borrow because trust fund surpluses are required to be invested in Federal securities.

Table 4 presents permanent and temporary debt levels that have been enacted from 1955 through July 1978.

TABLE 2.—ESTIMATES OF UNIFIED BUDGET TOTALS FOR FISCAL YEARS 1979 AND 1980

[In billions of dollars]

	Budget resolution 1979	Administration estimates 1979	Administration estimates 1980
Receipts	449	456	503
Outlays	488	493	532
Deficit	39	37	29

Source: Budget for U.S. Government for fiscal year 1980.

TABLE 3.—ADMINISTRATION ESTIMATES OF BUDGET TOTALS BY FUND GROUPS

[In billions of dollars]

	1979 estimate	1980 estimate
Budget receipts:		
Federal funds	306.1	332.8
Trust funds	189.5	212.2
Interfund transactions	−39.6	−42.5
Total, budget receipts	456.0	502.6
Budget outlays:		
Federal funds	361.3	381.8
Trust funds	171.7	192.2
Interfund transactions	−39.6	−42.5
Total, budget outlays	493.4	531.6
Budget surplus or deficit (−):		
Federal funds	−55.2	−49.0
Trust funds	17.8	20.0
Total, unified budget surplus or deficit (−)	−37.4	−29.0
Memorandum:		
Deficit, off-budget Federal entities [1]	−12.0	−12.0
Total, surplus or deficit (−) including off-budget Federal entities	−49.4	−41.0

[1] All off-budget Federal entities are revolving funds; income is offset against expenditure to derive net outlays. Hence, no adjustments are made to receipts when on and off-budget totals are consolidated. Virtually all off-budget outlays would be classified as Federal funds outlays if they were included in the budget.

Source: Budget for U.S. Government in Fiscal Year 1980.

TABLE 4.—STATUTORY DEBT LIMITATIONS, FISCAL YEARS 1947 TO DATE IN FISCAL YEAR 1979

[In billions of dollars]

Fiscal year	Statutory debt limitation: Permanent	Temporary additional	Total
1947–54	$275	----------	$275
1955 through Aug. 27	275	----------	275
1955: Aug. 28 through June 30	275	$6	281
1956	275	6	281
1957	275	3	278
1958 through Feb. 25	275	----------	275
1958: Feb. 26 through June 30	275	5	280
1959 through Sept. 1	275	5	280
1959: Sept. 2 through June 29	283	5	288
1959: June 30	288	5	290
1960	285	10	295
1961	285	8	293
1962 through Mar. 12	285	13	298
1962: Mar. 13 through June 30	285	15	300
1963 through Mar. 31	285	23	308
1963: Apr. 1 through May 28	285	20	305
1963: May 29 through June 30	285	22	307
1964 through Nov. 30	285	24	309
1964: Dec. 1 through June 28	285	30	315
1964: June 29 and 30	285	39	324
1965	285	39	324
1966	285	43	328
1967 through Mar. 1	285	45	330
1967: Mar. 2 through June 30	285	51	336
1968 [1]	358	----------	358
1969 through Apr. 6 [1]	358	7	365
1969 after Apr. 6 [1]	358	----------	358
1970 through June 30 [1]	365	12	377
1971 through June 30 [1]	380	15	395
1972 through June 30 [1]	400	50	450
1973 through Oct. 31 [1]	400	50	450
1973 through June 30 [1]	400	65	465
1974 through Nov. 30 [1]	400	65	465
1974: Dec. 3 through June 30 [1]	400	75	475
1975 through Feb. 18 [1]	400	95	495
1975: Feb. 19 through June 30 [1]	400	131	531
1976 through Nov. 15 [1]	400	177	577
1976 through Mar. 15 [1]	400	195	595
1976 through June 30 [1]	400	227	627
TQ: from enactment through Sept. 30, 1976 [1]	400	236	636
1977: from Oct. 1, 1976 through Mar. 31, 1977 [1]	400	282	682
1977: from Apr. 1 through Sept. 30, 1977 [1]	400	300	700
1978: from Oct. 1, 1977, through July 31, 1978 [1]	400	352	752
1979: through Mar. 31, 1979 [1]	400	398	798
1979: after Mar. 31, 1979 [1]	400	----------	400

[1] Includes FNMA participation certificates issued in fiscal year 1968; $1.1 billion as of Nov. 30, 1978.

II. EXCEPTION TO INTEREST RATE CEILING ON BONDS

Present law

Under the Second Liberty Bond Act, the Secretary of the Treasury has the general authority to issue bonds at a rate of interest not to exceed 4¼ percent per year. In the past several years, however, exceptions to the interest ceiling have been enacted which now permit the Secretary to issue up to $32 billion of bonds at interest rates in excess of the ceiling. As a result of the high interest rates prevailing in the long-term market in recent years, it has been possible lately to issue bonds only under the exception from the 4¼ percent interest rate ceiling.

Background

Under current statutory authority, the Treasury Department has authority to issue $32 billion long-term bonds at interest rates above the 4¼ percent ceiling in sufficient quantity to meet the demands of the first half of fiscal year 1979. The Treasury Department desires to retain the position which it has been able to develop in the past few years in the long-term market, and it also seeks to have the ability to finance long-term issues because they have helped to reverse the shortening of the average maturity of the Federal debt. (At the end of October, it was 5 months longer than it was 1 year earlier: 3 years and 2 months as compared with 2 years and 10 months.) Lengthening the average maturity of the debt has reduced the average amount of money that must be raised in each refunding.

During the past 4 years, Congress has been reluctant to encourage a too rapid shift to longer maturities in the public debt structure. While greater Federal participation in the longer maturity market tends to lengthen the average maturity of the public debt in the hands of the public, it also tends to increase the interest rate on long-term bonds. Congress has increased this authority each year by an amount that was just enough to meet Treasury Department anticipations of the needs for the new fiscal year, while weighing the appropriate monetary policy for the current phase of the business cycle.

Presently, the Administration is issuing long-term bonds worth $15 billion each year; more specifically, the amount is $3¾ billion each quarter, which is $15 billion at an annual rate. This amount breaks down to a probable requirement of an additional $8 billion—to a total of $40 billion—through September 30, 1979, and an additional $15 billion—a total of $55 billion—through September 30, 1980.

III. DISCRETIONARY AUTHORITY TO RAISE INTEREST RATES ON SAVINGS BONDS

Present law

The interest rate that may be paid on U.S. savings bonds may not exceed 6 percent annually. The statutes has established this ceiling in two steps: a maximum rate of interest of 5½ percent plus authority available to the Secretary of the Treasury to increase this maximum interest rate by one-half of one percent, with the approval of the President. This authority has been used, and the current rate of interest on savings bonds is 6 percent.

Background

The Treasury Department requests the flexibility which will give it the discretionary authority to increase the interest rates on savings bonds so that the Secretary may be able to respond to changing market conditions in the savings bond area, just as he may in other sectors of the bond market. In the past when interest rates on savings bonds were at statutory ceilings and interest rates available on competitive forms of savings rose, the holders of savings bonds were placed at a disadvantage and sought to redeem those bonds, and potential purchasers of savings bonds would avoid them because the rates of interest paid on competitive forms of savings were higher. Although Congress in the past responded to the Administration's requests for an increased ceiling, the increase could not be put into effect until the legislative process was completed, usually some months after the time when the increase would have been put into effect administratively.